CONSOLIDATED CANADIAN FARADAY LIMITED

Concorp

ANNUAL REPORT 1973

TO THE SHAREHOLDERS:

During 1973 your company proceeded further on its program of diversification into the energy field.

I am pleased to provide details on these and other developments during the fiscal year ended December 31, 1973, and to present financial statements covering both Faraday and 50%-owned Dumbarton Mines Limited.

Werner Lake — Dumbarton

Through the latter part of 1973, and to the present, there has been increasing difficulty in maintaining a consistent grade of feed from the Dumbarton mine as the orebody nears exhaustion.

Following an agreement with Maskwa Nickel Chrome Mines Limited, exploration from surface and underground has been going forward on the area adjoining the Dumbarton workings to the east. Ore from these Maskwa claims will replace the exhausted Dumbarton source as feed for the Werner Lake mill. A decline is being driven into the Maskwa ground and some development ore has already been processed in the Werner Lake mill.

On the basis of presently-estimated reserves in the Maskwa ground, there is approximately one year's supply of ore at existing milling rate. Grade of the Maskwa reserves runs at 0.70% nickel and 0.50% copper after a dilution factor of 20%.

Exploration is also in progress on Maskwa claims lying to the west of the Dumbarton mine; diamond drilling has disclosed some potentially favourable areas justifying continuation of this work.

Bancroft

As shareholders are aware, Faraday's Bancroft uranium property is held 51% by Federal Resources Corporation of Salt Lake City. Federal has undertaken to finance, by the end of 1975, an operating entity which would place the property into production.

During the past year a sales contract was negotiated by Federal and will be effective after approval by the government agencies involved.

Faraday will retain a 49% interest in the net profits of the operation.

Industrial Minerals

Faraday is pursuing efforts to develop an industrial minerals operation.

Work last year was centred on owned and leased property in northern Ontario's Parry Sound area where a diamond drilling program was undertaken in an effort to establish a crystalline limestone deposit of commercial size and quality. While results have been inconclusive, it is intended to continue in this direction and the company is examining properties with commercial limestone potential in eastern Ontario. An exploration program is to be developed this year for this project.

Greenland

Faraday's participation in the Greenarctic Consortium is maintained, with holdings in Greenland now in the form of pooled interests in the newly-formed company, Greenarctic Consortium Limited.

Applications for exclusive licences to explore for oil and natural gas are pending. An extensive bank of exploration data has been gathered and processed by the Consortium in its preliminary programs. In view of this, it is believed the Canadian organization has excellent prospects for early approval of its application by the recently-formed coalition government in Denmark.

Three exclusive mining licences are already held by the Corsortium within reservations which total approximately 30 million acres.

Associated Companies

In two associated companies — Hydra Explorations Limited and Massval Mines Limited — Faraday's interests give your company a share in the activities and holdings of these two companies.

Hydra has two important gold interests — the Porcupine Peninsula property in the Timmins area of northern Ontario and a 50% ownership of Johnsby Mines Limited, holder of claims in the Northwest Territories. There is significant activity on both these properties.

On the Timmins ground, Pamour Porcupine Mines Limited, a Noranda Group company, has completed a new diamond drilling program. The aim is to place the property into production as a supply of ore for the Pamour mill. Results of this work are awaited by the Hydra management.

An agreement has been made by Cominco Ltd. with Johnsby Mines whereby Cominco will undertake a major exploration program on Johnsby's large gold property in the Indin Lake area of the Northwest Territories. The work is expected to start early this summer.

Cominco, in order to earn 60% interest in the Johnsby property, would spend up to $3 million in exploration and development. Subsequently Johnsby would participate in further financing in order to maintain 40% interest.

Massval Mines is also involved in exploration for gold. This company is participating with the Millmor Syndicate in a program on an 80-claim group in southeastern Nova Scotia. The property includes a former producing mine.

Results thus far from the program have been encouraging. Diamond drilling has traced the gold-bearing zone for a length of nearly 700 feet with depth of ore-grade intersections ranging between 130 feet and 250 feet below surface. The drilling is continuing.

Petroleum Interests

Initial returns are now being made to cash flow as a result of Faraday's diversification into the petroleum field.

Alberta

Income has commenced from the natural gas interest retained by Faraday in the Redcliffe area of southeastern Alberta. Faraday last year realized a profit on its initial investment in the Redcliffe field when shallow gas rights were sold in part of our acreage for slightly less than $500,000.

Also in Alberta, further drilling is scheduled for acreage in the Saddle Lake area where Faraday's interests cover natural gas reserves. Altana Exploration Company, a subsidiary of Montana Gas Utilities Corp., is the operator in this section.

Last year Faraday acquired a 10% interest in 64,000 acres in the Drumheller area of Alberta under a farmout agreement with Alberta Eastern Gas. Two wells have been drilled; both returned gas flows from zones intersected. Flow levels were insufficient to provide economic operation. Further drilling is to be carried out.

Kentucky

Intercontinental Energy Corporation, Faraday's wholly-owned U.S. subsidiary, has as its major activity the development of oil acreage in Green County, Kentucky.

A total of 74 wells is presently on pump, including 13 new wells with a production level of 2,700 barrels per month. The program schedules four additional wells per month throughout 1974.

A report on secondary recovery by water flooding is under review and indications are that a pilot project will commence this summer.

On behalf of the Board,

W. C. Campbell

W. CLARKE CAMPBELL,
President.

May 10, 1974.

WERNER LAKE DIVISION

EXPLORATION: A geophysical survey is underway to further investigate an anomaly located approximately 1,500 feet north of the Gordon Lake Fault. Some work was done here in 1971 by Norman Paterson and the diamond drilling which followed indicated 90,000 tons of ore averaging 1.23% copper with traces of nickel. The zone is open at both ends.

The planned survey will be conducted east and west of the present location and over Gordon Lake itself. If results are favourable, diamond drilling will be considered. Line cutters are presently on the site. The survey itself will be conducted by company geologists.

MASKWA EAST & WEST EXTENSION

Geophysical surveying and diamond drilling conducted by Falconbridge and Maskwa Chrome Nickel Mines in previous years indicated a continuation of the present known zone east and west of our mining lease at Dumbarton Mines Limited. Diamond drilling also indicated a possible ore zone approximately 1,200 feet east of our boundary.

In order that these conductors could be further investigated and exploited, it was necessary to obtain an exemption from the requirement that the ores be refined in Canada. The requisite authority has been obtained and an agreement has been finalized with Maskwa Nickel Chrome Mines Ltd. whereby Consolidated Canadian Faraday will mill ores from the eastern extension on a royalty-profit sharing arrangement.

EXPLORATION: Surface diamond drilling on the new leased extension to the east has indicated an ore body known as the F-Zone.

Eighteen holes totalling 7,789 feet have been drilled in this zone, between Section 6200 and 7200 East. An estimated 258,000 tons of ore are indicated with a diluted grade of 0.75% nickel and 0.52% copper. A single hole in the peridotite horizon to the south on section 8050 E. encountered only low nickel values in the order of 0.25%.

Five holes amounting to 1,926 feet were completed on the Maskwa property to the west. Drilling in an area of copper mineralization between sections 1300 and 1600 East encountered seven feet of 5.41% copper in a quartz vein in a hole on section 1400E and 11 feet of 0.36 nickel and 0.24% copper in a magnetite "ore" zone in another hole on 1300 E. A third hole on 1600E was barren.

Between section 0 and 800E a magnetite "ore" zone was exposed in surface trenching with nickel values in the order of 0.40% along a possible length of 150 feet. One of two holes drilled in this area cut the zone on section 400E and obtained moderate mineralization grading 0.46% nickel and 0.51% copper over a true width of 11 feet.

A total of 9,715 feet of surface diamond drilling has been completed on these new extensions to the east and west. Drilling is still continuing.

MINING: The 500 East haulageway is being increased to a height of 10 feet to permit development of the F-Zone. This will accommodate ventilation fans and permit the use of teletrams to assist in development and production. To date 4,992 tons of waste have been excavated to enlarge the haulageway.

A six-inch air line and two Axivane air fans are being installed to provide services during mining. A grader will be used to maintain the roadway which consists of crushed rock sized to one inch. Mining will be sub-level benching with gravity feed to draw points. Stoping services will be provided by a decline extending from surface to the 500-foot level.

Capital expenditures for the fiscal period were $3,382.57 which included two Axivane 40 H.P. air fans.

GENERAL: Due to a shortage of skilled miners consideration is being given to employing contractors to develop the F-Zone.

A third mobile long hole drill jumbo is being assembled. This will decrease longhole drilling to a five-day week.

A second teletram has been ordered for conveying ore from the new zone.

A new contract has been negotiated with the United Steelworkers of America at the Werner Lake operation.

I wish to express my appreciation towards the mine staff and employees for their support and loyalty throughout the year. The co-operation and assistance of the directors and officers is also gratefully appreciated.

Respectfully submitted,

C. P. Moore, P.Eng.,
Manager, Werner Lake Division

DUMBARTON MINES LIMITED

Production of ore from Dumbarton Mines Limited in 1973 totalled 332,160 tons trucked, of which 2,891 tons remained on the stockpile at the end of the year. A total of 331,851 dry tons was milled at a rate of 909 tons per calendar day.

The production of concentrate totalled 20,205.07 dry tons with a recoverable metal content of 4,106,527 pounds of nickel and 1,761,118 pounds of copper.

The production of precious metals consisted of 311.970 ounces of palladium.

MINING: Mining of 5-310 and 5-350 Stopes in the west end of the mine was completed with the exception of some 20,000 tons displaced by faulting. These remnants are now being developed for stoping. Ramping from the 500 level continued in 1973, undercutting the 5-460 Stope (B-Zone), 6-510 Stope (C-Zone) and the 6-420 Stope (D-Zone) on the 630 level.

A decline was driven from surface and a subdrift extended across the top of 5-460 Stope to mine the remaining ore below the surface pillar.

The 5-460 West Stope was also developed by ramping under the ore body. The west end of the stope was mined through to surface and is now being filled with waste. The east end does not surface and will be mined from underground.

Development of the 6-510 Stope with sub-levels at 80-foot intervals is progressing favourably.

Due to erratic distribution of values the C-Zone has been split into two separate zones. The eastern portion is now called the E-Zone. A decline has been started from surface in this zone and intermediate sub-levels are being driven to develop this section known as 5-550 Stope.

The 500 East haulageway was advanced to 6000E section for the purpose of exploration drilling.

Development footages for 1973 including slash equivalents amounted to 6,877 feet of ramps and drawpoints and 778 feet of raising.

Production from sub-level benching and stope preparation employing trackless mobile drills and haulage equipment produced 33% of the ore from 5-310 Stope, 24% from 5-350 Stope, 20% from 5-460 W. Stope, 7% from 6-420 Stope, 3% from 5-460 Stope, 3% from 6-510 Stope and 10% from stope preparation.

Waste rock from underground development, conveyed or trammed to surface, amounted to approximately 166 tons per calendar day.

EXPLORATION: Underground exploration was concentrated on the east end of the 500 level where the 500 East haulage was extended to the boundary at 6000E and 5,947 feet of detailed exploration drilling was completed. As a result of this work, plus some surface drilling and recent drifting, 81,000 tons of ore at 0.73% nickel and 0.27% copper have been outlined in the new "E" Zone between the 500 level and surface. A possible 49,000 tons of comparable grade has been indicated in the same zone between the 500 and 700 levels.

Two short exploratory holes were drilled beyond the west boundary of the property without intersecting any significant mineralization.

Ore limit drilling on 25- and 50-foot sections for stope planning amounted to 7,613 feet for the year. This footage was distributed equally among 5-460E, 5-460W, 6-420 and 6-510 Stopes.

Two hundred and eighty-seven feet of surface drilling and 13,945 feet of underground drilling were done on the Dumbarton property during 1973.

ORE RESERVES: The "E" Zone above 500 level was partly developed in 1973 and added to the proven ore reserves. The portion of the "E" Zone below 500 level which is not as well defined and difficult to develop from the present workings is classified as possible ore. Crown pillars on 350 and 460 Stopes amounting to 46,000 tons are listed separately. The grade of the pillars based on the nearest drill information is calculated at 1.01% but it may well be lower because of surface weathering.

Ore reserves as of December 31st, 1973, are calculated below, based on 9.4 tons per cubic foot and 20% dilution.

	TONS	NICKEL	COPPER
*Proven (recoverable)	250,000	0.81%	0.26%
Proven (crown pillars)	46,000	1.01	0.26
Possible	49,000	0.74	0.46
	345,000	0.83%	0.29%

*Proven reserves include tons broken underground and stockpiled on surface.

MILLING: From 331,851 dry tons of ore milled 207,691 tons were milled on the rod mill circuit at a rate of 31.6 tons per hour and 124,160 tons were milled on the ball mill circuit at a rate of 20.1 tons per hour to produce a throughput of 1,238 tons per operating day.

The yearly crushing rate was 107.21 tons per hour which is 26.02 tons per hour higher than 1972.

Throughout the year general maintenance repairs were carried out on the cone crushers, Ty-Rock screens and dust collector systems.

The bull gear of the Allis-Chalmers ball mill was turned, a new pinion gear installed and the mill re-lined.

The rod mill pinion gear and shell liners were changed in August. A new bull gear has been ordered to replace the old gear which is badly worn.

The Marcy ball mill feed liners were changed and a set of shell liners ordered.

Maintenance work was also carried out on pipe lines and flotation cells.

Work continued throughout the year, building and improving the tailings disposal area.

Although there was a drop in the grade of mine ore made available for milling, metal recoveries and concentrate grades compared favourably with previous performance figures.

	1973	1972	1971
Tons milled	331,851	325,766	299,480
Heads — nickel	0.76%	0.86%	0.86%
— copper	0.30%	0.28%	0.32%
Tails — nickel	0.16%	0.18%	0.18%
— copper	0.03%	0.03%	0.03%
Recoveries — nickel .	10.16%	10.62%	10.17%
— copper	4.36%	3.92%	4.08%
Concentrate — nickel	81.0%	80.3%	79.0%
— copper	89.5%	90.1%	88.77%

COSTS: Capital expenditures amounted to $275,422.00. This included two new scooptrams, a drill jumbo, air track drill, unimog, rock drills and safety equipment.

The new scooptrams and unimog replaced the older units which have been in service since operations commenced.

The drill jumbo will permit drilling longer rounds using less labour, thus increasing the advance per manshift and decreasing costs.

Additional breathing apparatus for mine rescue recovery work was also purchased.

Excluding capital expenditures the operation made a profit of $3.13 per dry ton of ore milled at the minesite.

Higher operating costs due to increased development and mining charges increased the operating costs per ton milled by $1.52 over last year's figures. The heavy development costs were anticipated and it was necessary to increase labour rates to be in line with the prevailing rates in the area.

Comparative direct operating costs at the mine are as follows: —

	1973	1972	1971
Development	1.45	0.90	0.96
Mining	2.93	2.35	1.77
Milling	2.22	2.34	2.08
General expense	0.85	0.88	0.78
Overhead charges CCF Ltd. ..	1.56	1.33	0.87
Crushing	0.35	0.39	0.33
Conveying	0.27	0.16	0.13
Ore & waste transport	1.55	1.53	1.53
Marketing	1.22	1.32	1.33
Charge for use of mill	0.73	0.71	0.81
	13.13	11.73	10.59

GENERAL: Plans for removal of the remaining surface pillars have been delayed as the heavy oxidation from weathering resulted in low nickel recoveries.

The extensive development program outlined last year will continue into the greater part of 1974.

The rock dam impounding mill tailings will be raised five feet this year and the tailings area extended to the west.

During the year the company and its employees continued to maintain good relations without a labour agreement.

I wish to express my appreciation to the staff and employees for their continuing support and loyalty throughout the year. The co-operation and assistance of the company directors and officers are also appreciated.

Respectfully submitted,

DUMBARTON MINES LIMITED.

C. P. Moore, P.Eng.,
Manager.

CONSOLIDATED CANADIAN FARADAY LIMITED
(Incorporated under the laws of Ontario)
and subsidiary companies

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1973
(with comparative figures at December 31, 1972)

ASSETS

	1973	1972
CURRENT ASSETS		
Cash and short-term deposits	$ 353,989	$ 754,630
Accounts receivable	57,860	126,258
Outstanding settlements, at estimated net realizable value, less advances (note 5)		14,545
Supplies and other prepaid expenses	223,592	237,869
	635,441	1,133,302
INVESTMENTS (notes 2 and 7)		
Effectively controlled companies	2,007,968	2,623,089
Other companies	736,720	726,511
	2,744,688	3,349,600
FIXED ASSETS (notes 3 and 4)		
Buildings, plant and equipment, at cost	10,478,646	10,989,604
Less accumulated depreciation	9,931,290	10,278,166
	547,356	711,438
Mining claims, rights, properties and leases, at cost less accumulated depletion of $409,609	397,716	394,716
Interest in petroleum and natural gas leases, at cost	1,010,535	1
	1,955,607	1,106,155
OTHER ASSETS		
Deferred exploration expenditures (note 3(b))	83,686	
Advances receivable	133,850	133,786
Mortgage receivable	27,903	10,636
	245,439	144,422
	$ 5,581,175	$ 5,733,479

Approved by the Board:

W. CLARKE CAMPBELL, Director.

JULES LOEB, Director.

LIABILITIES

	1973	1972
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 273,262	$ 313,154
LONG-TERM DEBT		
Petroleum production and other payments (note 4)	255,468	
6½% Mortgage, payable in instalments to September 1, 1976, less current portion included in accounts payable	52,919	76,114
	308,387	76,114

SHAREHOLDERS' EQUITY

	1973	1972
CAPITAL STOCK (note 6)		
Authorized — 5,000,000 shares of no par value		
Issued — 3,421,300 shares	6,459,747	6,459,747
CONTRIBUTED SURPLUS	1,506,061	1,506,061
	7,965,808	7,965,808
DEFICIT	2,966,282	2,621,597
	4,999,526	5,344,211
	$ 5,581,175	$ 5,733,479

Commitments and contingencies (note 9)

AUDITORS' REPORT

To the Shareholders of Consolidated Canadian Faraday Limited

We have examined the consolidated balance sheet of Consolidated Canadian Faraday Limited and subsidiary companies as at December 31, 1973 and the consolidated statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change in accounting practice referred to in note 2(a), have been applied on a basis consistent with that of the preceding year.

Toronto, Canada
January 31, 1974

THORNE GUNN & CO.
Chartered Accountants

CONSOLIDATED CANADIAN FARADAY LIMITED
(Incorporated under the laws of Ontario)
and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1973
(with comparative figures for 1972)

	1973	1972
Rental and other income	$ 587,067	$ 304,725
Production of concentrates (note 5)		774,113
Profit on petroleum and natural gas leases		43,864
	587,067	1,122,702
Operating expenses (including mortgage interest of $5,103 in 1973 and $6,421 in 1972)	330,110	967,045
	256,957	155,657
Depreciation	140,459	551,865
Income (loss) before undernoted items	116,498	(396,208)
Share of losses of effectively controlled companies (note 2(a))	168,079	
Outside exploration	128,423	135,259
Provision for decline in value of investments (note 2(d))	157,181	215,436
	453,683	350,695
Loss for the year before income taxes	337,185	746,903
Income taxes of subsidiary	7,500	
Loss for the year	$ 344,685	$ 746,903
Loss per share	10¢	22¢

CONSOLIDATED STATEMENT OF DEFICIT
YEAR ENDED DECEMBER 31, 1973
(with comparative figures for 1972)

	1973	1972
Deficit at beginning of year	$2,621,597	$1,874,694
Loss for the year	344,685	746,903
Deficit at end of year	$2,966,282	$2,621,597

CONSOLIDATED CANADIAN FARADAY LIMITED
and subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1973

(with comparative figures for 1972)

	1973	1972
Source of funds		
Operations		
Depreciation, amortization and other items not involving current funds	$ 465,719	$ 763,249
Deduct loss for the year	344,685	746,903
	121,034	16,346
Reduction of advances to other companies, net	338,993	124,999
Sale of investments	1,443,842	17,314
Sale of fixed assets	30,500	447,501
Reduction in non-current account receivable		91,775
Reduction of mortgage receivable		618
	1,934,369	698,553
Application of funds		
Purchase of investments	1,503,183	440,606
Additions to buildings, plant and equipment	6,877	466,549
Reduction of mortgage payable	23,195	21,587
Purchase of mining claims	3,000	
Purchase of interest in petroleum and natural gas leases, less production and other payments of $255,468 included in long-term debt	755,066	
Deferred exploration expenditures	83,686	
Increase in non-current receivables	17,331	
	2,392,338	928,742
Decrease in working capital	457,969	230,189
Working capital at beginning of year	820,148	1,050,337
Working capital at end of year	$ 362,179	$ 820,148

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1973

1. BASIS OF CONSOLIDATION

These financial statements include the accounts of the following wholly-owned subsidiary companies: Bancroft Holdings Limited, Intercontinental Energy Corporation (acquired in 1973, note 4(a)), Farida, Inc., and Faramines, Inc.

2. INVESTMENTS

(a) Investment in effectively controlled companies

Due to a change in accounting practice made pursuant to a recommendation of the Canadian Institute of Chartered Accountants and effective January 1, 1973 investments in effectively controlled companies, formerly included with investments in other companies, are now valued on a basis of accounting which reflects changes in equity since that date. This change has not been made on a retroactive basis.

Had this change in accounting practice not been made the loss for the year of $344,685 would have been reduced by $220,885 to a loss of $123,800.

	Dumbarton Mines Limited (note 7)	Hydra Explorations Limited	Massval Mines Limited	Total
Percentage ownership	50%	36%	36%	
Balance at January 1, 1973				
Shares, at cost	$ 103	$ 375,648	$ 119,784	$ 495,535
Advances	2,804,204			2,804,204
Allowance for decline in value	(400,000)	(186,103)	(90,547)	(676,650)
	2,404,307	189,545	29,237	2,623,089
Changes during year				
Share of losses	136,951	29,845	1,283	168,079
Increase in allowance for decline in value (note 2 (d))	113,049			113,049
	250,000	29,845	1,283	281,128
Reduction of advances	333,993			333,993
	583,993	29,845	1,283	615,121
Balance at December 31, 1973	$1,820,314	$ 159,700	$ 27,954	$2,007,968
Quoted market value (note 2 (c))		$ 495,732	$ 32,891	

The share of losses of Dumbarton Mines Limited includes $13,750 being the company's share of a prior period mining tax adjustment.

Included in the shares of Massval Mines Limited are 691,039 escrowed shares.

(b) Investment in other companies, not in excess of cost

	1973	1972
Shares in companies having a quoted market value (quoted market value 1973, $556,731; 1972, $545,071) (note 2(c))	$ 757,795	$ 567,123
Shares of Prairie Potash Mines Limited	180,000	180,000
Other shares	124,425	203,738
Convertible debentures of Henrietta Mines Limited	100,000	100,000
Advances		5,000
	1,162,220	1,055,861
Less allowance for decline in value	425,500	329,350
	$ 736,720	$ 726,511

Included in the quoted market value is $4,640 ($19,420 in 1972) representing escrowed shares which have been valued at 50% of the quoted market value of free shares.

(c) Investment in companies for which there is a quoted market value includes instances of large share holdings where quoted market values are not necessarily indicative of amounts which might be realized if the shares were to be sold.

(d) Provision for decline in value of investments provided during the year is made up as follows:

	1973	1972
Dumbarton Mines Limited	$ 113,049	$ 200,000
Other investments	96,150	32,750
	209,199	232,750
Less gain on sale of investments	52,018	17,314
	$ 157,181	$ 215,436

3. **DEPRECIATION AND DEPLETION POLICY**

(a) Depreciation

The net book value of the mine assets became fully provided for in 1972 at the termination of the life of the Werner Lake ore body (note 5). The remaining net book value of the mill assets amounting to $87,300 is being depreciated over the life of the Dumbarton Maskwa orebody (note 7).

Other buildings, plant and equipment consisting mainly of the Florida, U.S.A. real estate operation of Farida, Inc., are being depreciated on a straight line basis over their estimated useful life.

(b) Depletion

At December 31, 1973 mining claims, rights, properties and leases of $397,716, exploration expenditures of $83,686 and the cost of participation in petroleum and natural gas projects of $1,010,535 have been deferred with the intention that they should be amortized by charges against income from future operations. The recovery of these costs is dependent, therefore, upon the development of economic operations.

Prior to amalgamation, one of the constituent companies did provide for depletion to the extent of $409,609, which is still carried in the accounts.

4. **INTEREST IN PETROLEUM AND NATURAL GAS LEASES**

During 1973 the company

(a) Acquired all of the issued and outstanding shares of Intercontinental Energy Corporation, a U.S. company engaged in petroleum and natural gas exploration. The acquisition was accounted for on a purchase basis.

Acquisition equation

Net assets acquired

Net asset at the book value of the seller	
Property and equipment	$ 55,625
Deferred promotional and development costs	138,638
	194,263
Adjustment of net assets to fair value	202,414
	$ 396,677
Consideration given	
Cash	$ 396,777

This company was considered to be in the pre-production stage in 1973 and all expenditures during the year were either capitalized or deferred.

Petroleum and natural gas leases held by Intercontinental are as follows:

Alberta and Saskatchewan	$ 404,018
Kentucky, U.S.A. (acquired in 1973 subsequent to acquisition)	586,627
	990,645
(b) Participated in the drilling of eleven wells on its 11.017% interest in certain petroleum and natural gas leases in the Redcliffe area of south-eastern Alberta	19,890
	$1,010,535

The properties held by Intercontinental in Kentucky, U.S.A. give rise to the following liabilities:

Petroleum production payments (to be paid out of proceeds from production)	$ 217,385
Other — equipment lease-back rentals	85,333
Less portion included in current liabilities	47,250
	38,083
	$ 255,468

5. **WERNER LAKE OPERATIONS**

The company's mine at Werner Lake continued on a salvage basis until September 1972 when underground operations ceased. The mill continues to operate at full capacity processing ore from Dumbarton Mines Limited.

6. **CAPITAL STOCK**

Options on 163,750 shares at $1.50 per share have been granted and remain outstanding at December 31, 1973 under incentive option plans for key officers and personnel.

7. **DUMBARTON MINES LIMITED**

Pursuant to an agreement dated August 15, 1968 between Consolidated Canadian Faraday Limited and Maskwa Nickel Chrome Mines Limited each company owns 50% of the outstanding shares of Dumbarton. As required under the terms of the agreement Faraday prepared Maskwa's nickel-copper deposit for production at a rate of at least 700 tons of ore per day and extended its own mill to process such ore. It is provided that Faraday's advances for preparing the Maskwa mine for production and providing operating capital are to be repaid from the cash flow and operating profits thereafter, if any, will be divided equally between Maskwa and Faraday. Capital expenditures of $567,408 incurred by Faraday in extending the capacity of its mill are repayable through an amortization charge per ton of Maskwa ore treated.

Present operating costs and metal prices indicate a less than full recovery of advances from the mining and processing of the presently estimated ore reserves (note 2(a)).

8. **INCOME TAXES**

The company has substantial depreciation, amortization and exploration expenditures available to offset taxable income of future years.

9. **COMMITMENTS AND CONTINGENCIES**

(a) Agreement with Federal Resources Corporation

Pursuant to the terms of an agreement dated September 8, 1966, as amended, Federal Resources Corporation, an unaffiliated company, has undertaken to commence to organize and finance by December 31, 1975 an entity to acquire and operate the company's Bancroft (uranium) property. This commitment is accelerated in the event that a market for the product from the property is developed earlier. A sales contract has been negotiated and signed and is effective subject to certain governmental approvals for which applications are pending. The company will retain a 49% interest. Under the terms of the agreement Federal has assumed responsibility for maintenance of the mine property.

(b) Guarantee
The company has pledged its book debts as collateral for its guarantee of a bank loan to Dumbarton Mines Limited in the amount of $63,000.

10. **OTHER STATUTORY INFORMATION**

Remuneration of directors and senior officers (as defined by The Business Corporations Act) amounts to $130,250 ($134,300 in 1972).

DUMBARTON MINES LIMITED
(Incorporated as a private company under the laws of Manitoba)

BALANCE SHEET — DECEMBER 31, 1973
(with comparative figures at December 31, 1972)

ASSETS

	1973	1972
CURRENT ASSETS		
Accounts receivable	$ 11,122	$ 10,917
Outstanding settlements and concentrates, at estimated net realizable value less advances	1,528,259	1,572,934
Ore stockpile, at cost	15,062	11,033
Supplies and other prepaid expenses	250,919	107,350
	1,805,362	1,702,234
FIXED ASSETS		
Buildings and equipment, at cost	1,911,331	1,636,409
Less accumulated depreciation	1,532,884	1,031,614
	378,447	604,795
PREPRODUCTION EXPENDITURES	1,254,124	1,254,124
Less accumulated amortization	1,062,757	808,896
	191,367	445,228
	$ 2,375,176	$ 2,752,257

LIABILITIES

	1973	1972
CURRENT LIABILITIES		
Bank advances, secured by assignment of book debts	$ 193,869	$ 187,868
Accounts payable and accrued liabilities	364,141	143,103
Mining tax payable	28,871	52,595
Advances from Consolidated Canadian Faraday Limited (notes 2 and 3)	2,470,211	2,804,204
Total liabilities	3,057,092	3,187,770

CAPITAL STOCK AND DEFICIT

	1973	1972
CAPITAL STOCK		
Authorized and issued — 20,000 shares without par value	205	205
DEFICIT	(682,121)	(435,718)
	(681,916)	(435,513)
	$ 2,375,176	$ 2,752,257

Approved by the Board:

W. CLARKE CAMPBELL, Director.

G. P. MITCHELL, Director.

STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1973
(with comparative figures for 1972)

	1973	1972
Production of concentrates	$ 5,151,742	$ 4,499,021
Operating expenses other than below	4,415,802	3,873,118
Manitoba mining tax	23,100	27,849
	4,438,902	3,900,967
	712,840	598,054
Interest on advances from Consolidated Canadian Faraday Limited	203,612	196,028
Income before undernoted items	509,228	402,026
Depreciation	501,770	353,926
Amortization of preproduction expenditures	253,861	260,547
	755,631	614,473
Loss for the year	$ 246,403	$ 212,447

STATEMENT OF DEFICIT
YEAR ENDED DECEMBER 31, 1973
(with comparative figures for 1972)

	1973	1972
Deficit at beginning of year		
As previously reported	$ (408,218)	$ (216,110)
Adjustment of prior years' mining tax (note 4)	27,500	7,161
As restated	(435,718)	(223,271)
Loss for the year	(246,403)	(212,447)
Deficit at end of year	$ (682,121)	$ (435,718)

AUDITORS' REPORT

To the Shareholders of Dumbarton Mines Limited

We have examined the balance sheet of Dumbarton Mines Limited as at December 31, 1973 and the statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1973 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 31, 1974.

THORNE GUNN & CO.,
Chartered Accountants

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
YEAR ENDED DECEMBER 31, 1973
(with comparative figures for 1972)

	1973	1972
SOURCE OF FUNDS		
Operations		
Depreciation and amortization of preproduction expenditures not involving current funds	$ 755,631	$ 614,473
Loss for the year	246,403	212,447
	509,228	402,026
APPLICATION OF FUNDS		
Additions to fixed assets	275,422	55,802
Increase in working capital position	233,806	346,224
Working capital deficiency at beginning of year		
As previously reported	(1,458,036)	(1,824,599)
Adjustment of prior years' mining tax (note 4)	27,500	7,161
As restated	(1,485,536)	(1,831,760)
Working capital deficiency at end of year	$ (1,251,730)	$ (1,485,536)

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1973

1. FORMATION OF COMPANY

The Company was incorporated pursuant to an agreement between Consolidated Canadian Faraday Limited (Faraday) and Maskwa Nickel Chrome Mines Limited (Maskwa) whereby:

(i) Maskwa transferred to Dumbarton, under licence, the five mining claims covering the known deposit.

(ii) Cost of preparing the deposit for mining and amortization of the cost of Faraday extending its mill at Werner Lake to enable it to treat the ore produced were to be paid from the cash flow resulting from the sale of concentrates.

(iii) Faraday and Maskwa as equal shareholders of the Company participate equally in operating profits.

2. OPERATIONS

The economic life of the ore body is not expected to continue beyond the fall of 1974. Present costs and metal prices indicate that there will be insufficient cash generated to repay the advances from Consolidated Canadian Faraday Limited in full.

3. ADVANCES FROM CONSOLIDATED CANADIAN FARADAY LIMITED

Interest is accrued on advances at Faraday's bank rate. As at December 31, 1973, the advances include interest of $19,818 ($24,290 in 1972).

4. ADJUSTMENT OF PRIOR YEARS' MINING TAX

Comparative figures for 1972 in the accompanying financial statements have been restated to reflect an increase in the liability for mining taxes in prior years of $27,500 representing the cumulative amount by which mining taxes as at December 31, 1972 have been increased. Of the $27,500, $20,339 is applicable to 1972 and has been charged to income of that year. The remaining $7,161 is applicable to years prior to 1972 and has been charged to deficit at that date.

5. OTHER STATUTORY INFORMATION

Remuneration of directors and senior officers

	1973	1972
Directors and officers	Nil	Nil
Other employees	$72,500	$70,973

CONSOLIDATED CANADIAN FARADAY LIMITED

Directors:	W. Clarke Campbell Jules Loeb Howard A. Masson Randolph P. Mills George T. Smith Archibald B. Whitelaw Charles E. Winters
Officers:	Randolph P. Mills, *Chairman of the Board* W. Clarke Campbell, *President* Jules Loeb, *Executive Vice-President* John R. Bridger, *Vice-President, Operations* William M. O'Shaughnessy, *Secretary-Treasurer*
Registrar and Transfer Agent:	Guaranty Trust Company of Canada Toronto, Montreal, Vancouver
Co-Transfer Agent:	Bank of Montreal Trust Company New York, N.Y.
Auditors:	Thorne Gunn & Co. Toronto, Ontario
Mine Office:	Werner Lake, Ontario
Head Office:	Suite 1600, 100 Adelaide Street West, Toronto, Ontario

CONSOLIDATED CANADIAN FARADAY LIMITED
1973 ANNUAL REPORT

Printed in Canada.